

Message Text

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ACTION NEA-09

INFO OCT-01 EUR-12 ISO-00 FEA-01 AEC-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-01

INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01

OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-03 PA-01 PRS-01

USIA-06 /100 W

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R 100515Z FEB 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 2196

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY PARIS

AMEMBASSY TEHRAN

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L KUWAIT 0660

DEPARTMENT FOR UNDERSECRETARY ROBINSON

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN KU

SUBJECT: KUWAITI OUTLOOK ON DOLLAR

REF: KUWAIT 553

1. REFTEL REPORTED WARNING BY KUWAIT MINISTER FINANCE AND OIL
ATEEQI THAT CONTINUED SLUMP OF DOLLAR INCREASINGLY OF CONCERN
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TO GOK AND THAT KUWAITIS MAY RAISE PROBLEM AT OPEC. RECENT

CONVERSATIONS WITH LOCAL FINANCIERS KNOWN TO BE CLOSE TO KEY MINISTRY OFFICIALS HAVE REVEALED ANALYSIS OF CURRENT EVENTS WHICH WE THINK MAY WELL BE SHARED BY ATEEIQI AND OTHER SENIOR GOK OFFICIALS.

2. ACCORDING TO THIS ANALYSIS CURRENT US DOLLAR PROBLEMS ARE NOT RPT NOT LIKELY TO BE SOLVED QUICKLY. THAT IS BECAUSE UNDERVALUED DOLLAR SERVES CURRENT USG DOMESTIC ECONOMIC AND POLITICAL REQUIREMENTS. MOREOVER, CURRENT HIGH UNEMPLOYMENT AND OTHER AMERICAN ECONOMIC PROBLEMS CAN BE EXPECTED TO LEAD TO CONSIDERABLY REDUCED TAX RECEIPTS, MUCH HIGHER SOCIAL-WELFARE TRANSFER PAYMENTS AND THEREFORE EVEN LARGER BUDGET DEFICIT THAN CURRENTLY PROJECTED. AS USG FINANCES HUGE DEFICIT, DOLLAR WILL BE WEAKENED.

3. ADDITIONAL PROBLEM, ACCORDING TO THIS VIEW, IS THAT EUROPEANS WILL REMAIN SKEPTICAL OF DOLLAR AND LARGE NUMBERS OF EUROPEANS WILL TRY TO UNLOAD DOLLARS THEREBY EXACERBATING EXCHANGE PROBLEM. OUR SOURCE PLACED EMPHASIS ON EUROPEAN ATTITUDES TOWARD GOLD. AS LONG AS DOLLAR DIVORCED FROM GOLD, HE SAID, PROBLEM WILL PERSIST. HE DID NOT NECESSARILY ARGUE LOGIC OF US POSITION, HE MERELY NOTED PREVALENT EUROPEAN FIXATION WITH GOLD AT MAN-IN-THE-STREET LEVEL.

4. KUWAITIS BELIEVE DOLLAR UNDERVALUED AND THEY DOUBT FLOAT BY ITSELF WILL SOLVE PROBLEM. THEY THEREFORE FACED WITH DILEMMA. AS LONG AS DOLLAR VALUES ARE DEPRESSED THEIR DE FACTO OIL INCOME IS REDUCED, A MATTER GOK DOES NOT TAKE LIGHTLY. GOK, HOWEVER, DOES NOT RPT NOT WANT TO MAKE ANY MOVES WHICH WILL DESTABILIZE INTERNATIONAL FINANCIAL MARKETS. OUR SOURCE SAID MANY US AND OTHER BANKERS ADVISED KUWAITIS TO BUY GOLD HEAVILY WHEN USG RECENTLY MADE GOLD AVAILABLE TO PRIVATE HOLDERS. GOK REFUSED, HOWEVER, BECAUSE IT FEARED SUCH A MOVE WOULD BE DESTABILIZING.

5. COMMENT: WE THINK MANY KEY KUWAITI OFFICIALS WOULD GO ALONG WITH ABOVE ANALYSIS, AND WE THINK SOURCE CORRECT IN PINPOINTING CONFLICTING PRESSURES TO MAKE UP FOR EXCHANGE LOSSES WHILE AT SAME TIME PRESERVING MONETARY STABILITY. AS INDICATED REFTTEL AND RECENT PRESS REPORTS, ATEEIQ IS SIGNALING THAT EXCHANGE LOSSES, ALONG WITH INFLATION, REMAIN SUBJECT OF DEEP CONFIDENTIAL

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CONCERN TO GOK. WE BELIEVE IT LIKELY THAT OFFICIALS WILL RAISE MATTER IN ANY DISCUSSIONS WITH USG OFFICIALS AND IN OPEC, IMF OR OTHER INTERNATIONAL MEETINGS. IN THIS CONNECTION, OVER PAST SEVERAL DAYS GOK HAS ATTEMPTED TO "CORRECT" IMPRESSION THAT ATEEIQI HAD CALLED FOR SPECIAL OPEC MEETING ON SUBJECT. ALLEGEDLY ATEEIQI ONLY CALLED FOR EARLY OPEC CONSIDERATION OF PROBLEM, PERHAPS AT FEB 19 OPEC MEETING IN ALGIERS. STOLTZFUS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DOLLAR, ECONOMIC STABILITY, DEVALUATIONS, CURRENCY CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 FEB 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975KUWAIT00660
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750047-0606
From: KUWAIT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750258/aaaabzrr.tel
Line Count: 115
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 KUWAIT 553
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 21 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 APR 2003 by KelleyW0>; APPROVED <22 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: KUWAITI OUTLOOK ON DOLLAR
TAGS: EFIN, KU, OPEC, (ATIQUI, ABD AL-RAHMAN SALIM AL)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006